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National Security and
International Affairs Division

B-280924

September 1, 1998

Congressional Committees

Subject: U.S. Export-Import Bank's Financing of Dual-Use Exports

Since October 1994 the Export-Import Bank of the United States (Eximbank) has had statutory authority to provide loans and guarantees to help finance exports of defense articles and services, provided that it determines these items are nonlethal and for primarily civilian use. These exports, referred to by the Eximbank as "dual-use" exports, include such items as air traffic control systems that have military applications but will be primarily used for civilian purposes. This letter responds to our statutory mandate¹ to report on the end uses of such dual-use exports supported by the Eximbank.

In July 1997, we reported on the Eximbank's financing of dual-use items in fiscal year 1995,² as required. That report also summarized loan and guarantee commitments for fiscal years 1996-97 and assessed the Eximbank's process for ensuring compliance with dual-use export requirements. This letter provides information regarding the end uses of items financed during fiscal years 1996. In addition, it summarizes the commitments made in fiscal years 1997 and 1998 to date.

RESULTS IN BRIEF

Of the two dual-use exports approved for financing assistance by the Eximbank during fiscal year 1996, only a component of one of these exports – an air traffic control radar system for Romania – has been delivered. It is not yet in place for its intended use. The other item approved for financing – helicopters

¹The Export-Import Bank Reauthorization Act of 1997 (P.L. 105-121) extended through 2001 a provision in 1994 legislation (P.L. 103-428) requiring GAO to report annually not later than September 1 on dual-use items financed during the second preceding fiscal year –which for this letter corresponds to fiscal year 1996.

²U.S. Export-Import Bank: Process in Place to Ensure Compliance With Dual-Use Export Requirements (GAO/NSIAD-97-211, July 17, 1997).

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for Indonesia -- has not actually been delivered. During fiscal year 1997, the Eximbank authorized financing for seven dual-use transactions, and during fiscal year 1998 to date it authorized one such transaction. None of the dual-use items approved for financing during 1997-98 are currently in use.

DUAL-USE ITEMS FINANCED IN FISCAL YEAR 1996

In fiscal year 1996, the Eximbank made two commitments totaling \$102.4 million. One commitment was to finance \$79.5 million in air traffic control equipment, specifically five radar systems, to be used by Romania's civil aviation authority for civil air traffic control. The Eximbank reported that, as of August 25, 1998, only one of the five radar systems had been delivered. This radar system, delivered in July 1998, was initially being used to train system operators and was not yet in place for its designated use for air traffic control. An end user certification will be due within the first 90 days of 1999, according to the Eximbank agreement with the Romanian government. Of the other four radar systems, two are being held in Romanian customs pending resolution of a tax issue, and two are scheduled to arrive in Romania in early September 1998.

The second commitment in fiscal year 1996 was to finance \$22.9 million in helicopters to be used by Indonesia's army in its role in helping develop Indonesia's rural areas. An Eximbank official told us that the borrower, Indonesia's Ministry of Finance, has not provided all the documents required for the export to take place. Therefore, the loan agreement has not been implemented, and no deliveries of helicopters have taken place.

DUAL-USE ITEMS FINANCED IN FISCAL YEARS 1997-98

For fiscal year 1997, the Eximbank reported that it made seven dual-use financing commitments totaling \$108.3 million. One of these commitments, totaling \$34 million, will be used by Brazil's air force in its role assisting Brazil's rural economic development. The other six commitments will be used to support air traffic control modernization and rural economic development by Venezuela's military.

So far in fiscal year 1998, the Eximbank has made one commitment of \$1.7 million to support the sale of aircraft components to be used in aircraft destined primarily for civilian activities, such as humanitarian aid and relief efforts by Indonesia's air force.

According to an Eximbank official, one additional application for fiscal year 1998 (\$7.65 million to support construction equipment to be used by Venezuela's Ministry of Defense for primarily civilian activities in the country's frontier regions) is expected to be considered by the Eximbank's Board of Directors in September 1998.

None of the dual-use items approved for financing during fiscal years 1997-98 are currently in use.

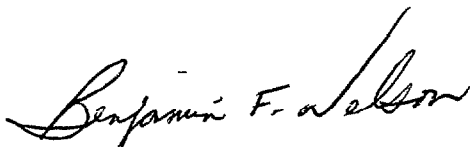
SCOPE AND METHODOLOGY

To determine the end uses of the items financed in fiscal years 1995-96 and to identify the extent of Eximbank financing of dual-use items in fiscal years 1997-98, we reviewed pertinent Eximbank documents and interviewed the Eximbank's Vice President of the Engineering and Environment Division, which is responsible for monitoring end-user compliance with dual-use requirements. This official reviewed a draft of this letter, and we incorporated his technical revisions in this letter. We did not independently verify the end use of these products.

We conducted our work during August 1998 in accordance with generally accepted government auditing standards.

We are sending copies of this letter to interested congressional Committees, the Chairman and the President of the Eximbank, and the Secretaries of State and Defense. We will also make copies available to others upon request.

Please contact me on (202) 512-4128 if you have any questions concerning this letter. The major contributors to this letter were Virginia C. Hughes and Juan F. Tapia-Videla.



Benjamin F. Nelson
Director, International Relations
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